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## **Social Entrepreneurship: Entrepreneurship and Social Value Creation**

Helen Haugh, Fergus Lyon and Bob Doherty

In Blackburn, R., De Clercq, D., Heinonen, J. and Wang, Z. (Eds) Sage Handbook  
for Entrepreneurship and Small Business. Sage

### **Abstract**

Social entrepreneurship has attracted attention from scholars, policy makers and practitioners in developed and developing countries around the world. Much of the early research was devoted to addressing definitional debates and contextual differences and only recently have scholars turned their attention to investigating the relationship between social value creation and opportunity identification and exploitation. The aim of the chapter is three fold. First, we review the rise to prominence of social entrepreneurship and the principal definitional and contextual debates. Second, we summarize the main research findings concerning social value creation and opportunity identification and exploitation. Finally, we identify ten critical topics for advancing social entrepreneurship knowledge and theory development.

**Keywords:** Social entrepreneurship, social enterprise, opportunity identification, opportunity exploitation

## Introduction

Scholar, policy and practitioner interest in social entrepreneurship has increased since the publication of influential books such as *The Rise of the Social Entrepreneur* (Leadbeater, 1998), *The Emergence of Social Enterprise* (Defourny & Borzaga, 2001) and *Managing and Measuring Social Enterprise* (Paton, 2003). During this period publications in corporate publications (Boschee, 1995; Dees, 1998; Foster & Bradach, 2005) and academic books and journals helped the field to take shape (Austin, Stevenson, & Wei-Skillern, 2006; Dart, 2004; Ridley-Duff & Bull, 2015; Seelos & Mair, 2005; Thompson, Alvy, & Lees 2000). At the same time policy developments were advanced in the United Kingdom (UK) (DTI, 2002; Lyon & Sepulveda, 2009, 2013), European Union (EU) (Evers, 1995, 2005; Evers & Laville, 2004; Spear, 2008) and the United States (US) (Dees, 1998). More recent international comparisons further indicate that social entrepreneurship is now an important entrepreneurial and development activity for economies around the world (Chandra & Wong, 2016; Jenner, 2016; Kerlin, 2006, 2010).

Recent reviews of the literature (Battilana & Lee, 2014; Doherty, Haugh, & Lyon, 2014; Jones, Keogh, & O'Leary, 2007; Peattie & Morley, 2008; Smith-Hunter, 2008) concur that social entrepreneurship describes the activities associated with the identification of opportunities to create social value and the creation of new ventures to pursue this goal in a financially sustainable way. Social entrepreneurship thus involves entrepreneurship - the establishment of sustainable organizations - and social purpose - processes and practices that create social value (Fowler, 2000; Mort, Weerawardena, & Carnegie, 2003; Nicholls & Cho, 2006; Peredo & McLean, 2006).

Social enterprise organizations are faced with a choice of legal form but are distinguished from other organisational forms by the simultaneous presence of two characteristics; the generation of earned income from trading goods and services and the prominence of social mission in the goal structure of the enterprise (Peredo & McLean, 2006). Social enterprises thus comprise characteristics from at least two different categories of organizations. In common with organizations in the private sector they pursue commercial goals by the generation a proportion of their income from trading in goods and services. With the public and non-profit sectors they share

in common the goal of creating social value. Social enterprises are thus private organisations committed to solving social problems (Mair & Martí, 2006; Weerawardena & Mort, 2006). Social enterprises are now widely accepted as playing an important role in addressing societal challenges of serving the disadvantaged and socially excluded (Blackburn & Ram, 2006; Defourny & Nyssens, 2006), unemployed (Pache & Santos, 2013), homeless (Teasdale, 2012) and the poor (Seelos & Mair, 2005), as well as tackling environmental issues such as climate change, biodiversity loss, pollution and recycling (Austin et al., 2006; Mair, Seelos, & Borwanker, 2005). The impact of social entrepreneurship also extends beyond social value creation to stimulating more widespread societal change (Alvord, Brown, & Letts, 2004; Lumpkin, Moss, Gras, Kato, & Amezcua, 2013; Mair & Martí, 2006; Nicholls, 2006; Sen, 2007).

Three examples from practice illustrate how social enterprise business models combine commercial activity with the pursuit of social goals. Social firms employ the disabled and disadvantaged to make goods for and provide services to customers (DTI, 2002). The social firm business model involves employee training as well as individual support for personal recovery and development (Svandberg, Gumley, & Wilson, 2010). Fair trade certified companies enable farmers and producers in developing countries to improve livelihoods by providing routes to markets and agricultural extension services (Davies, Doherty, & Knox, 2010; Nicholls & Opal, 2005; Tiffen 2002). In addition the fair trade premium paid to certified suppliers assists computer empowerment and development (Doherty, 2009). Finally, development trusts support community regeneration via asset based development and a wide range of trading and service delivery activities (DTI, 2002; Westall, 2001). For social entrepreneurship assets are broadly construed to include not just physical assets (Hart, 2001) but also knowledge, skills and emotions (Hopkins & Rippon, 2015).

The chapter is laid out as follows. We begin by summarising the definitional debates and contextual influences on social entrepreneurship. This is followed by a review of the research on social entrepreneurship and opportunity identification. This section brings together opportunity recognition, construction and social innovation, and discusses processes of effectuation and bricolage in opportunity construction. We then appraise the research on opportunity exploitation by reviewing social enterprise

business models, marketing, funding and human resource management. The final section advances ten suggestions for future research that will extend social enterprise theory and knowledge.

## **Defining Social Entrepreneurship**

Definitional debates feature prominently in the early social entrepreneurship literature and a standard definition has yet to be agreed upon (see for example Bacq & Janssen, 2011; Dacin, Dacin, & Tracey, 2011). In the US the social entrepreneurship discourse is dominated by market-based approaches to income generation and social change (Alter, 2006; Austin et al., 2006; Dees, 1998). Although a spectrum of social purpose organizations from purely philanthropic to purely commercial has been advanced (Dees, 1998), social entrepreneurship is firmly anchored to social business models in which earned income is the principal source of organizational revenue. Dees however moderates the commercial focus by acknowledging that social enterprise business models should “combine commercial and philanthropic elements in a productive balance” (Dees, 1998, p.60). The US perspective contrasts with the European social entrepreneurship discourse which is located in the cooperative tradition of collective social action (Borzaga & Defourny, 2004; Defourny & Nyssens, 2006; Evers et al., 2004). The UK borrows from both traditions and also stipulates that any surpluses from trading activity be principally reinvested in the business or disbursed for the benefit of the community (Amin, Cameron, & Hudson, 2002; DTI 2002).

The defining characteristic of earning income from trading differentiates social entrepreneurship from traditional non-profit organizations and community and voluntary activities in which business models rely on funding from grants, donations and philanthropy (Alter, 2006; Dees, 1998). In philanthropy dependent organizations the business model relies on income derived from donations and grants, the workforce includes volunteers and services to beneficiaries are provided free of charge. The pursuit of both commercial and social goals demands influences the types of social value creating opportunities that can be exploited as well as the way that opportunities are employed to generate sustainable income. In practice managing commercial and social goal achievement requires crafting a careful balance between resource utilisation in order to build and maintain competitive advantage at the same time as

serving beneficiaries and engaging with the key stakeholders (Moizer & Tracey, 2010).

### **Contextual Influences on Social Entrepreneurship**

Several political, economic and social trends in developed countries have encouraged policy and practitioner interest in social entrepreneurship. For example, the increasingly competitive international environment and rising domestic demand has increased pressure on government spending and pushed governments to find new ways of delivering health, social care and welfare services (Haugh & Kitson, 2007; Smith & Lipsky, 1993). This has led to policy level promotion for suppliers to adopt entrepreneurial approaches to delivering health, social care and welfare services. At the same time, the decline in philanthropic giving, increased societal interest in social investing and the appeal of ethical capitalism has stimulated social entrepreneurship (Blackburn & Ram, 2006; Chell, 2007; Dacin et al., 2011; Defourny & Borgaza, 2001; Peattie & Morley, 2008; Shaw & Carter, 2007; Tickel & Peck, 2003).

In developing countries the trends to promote social entrepreneurship are anchored in intractable global problems of poverty and inequality, informal and corrupt political institutions and resource constraints (Lumpkin et al., 2013; Rivera-Santos, Holt, Littlewood, & Kolk, 2015). The adverse environments found in sub-Saharan countries (Nega & Schneider, 2014; Thorgren & Omoredede, 2015) have shifted the responsibility for economic and social development from the public to the private and nonprofit sectors (Thorgren & Omoredede, 2015) and provided a fertile landscape for new social enterprise creation (Littlewood & Holt, 2015). Interest in social entrepreneurship has also increased in China as the economy opened up to western influences (Chandra & Wong, 2016).

### **Theorizing Social Entrepreneurship**

Although valuable contributions to a novel field of inquiry, many of the early contributions to social entrepreneurship were labelled as uncritical and lacking theoretical architecture (Haugh, 2005; Parkinson & Howorth, 2008; Sepulveda, Syrett, & Salvo 2013). The focus was to portray social entrepreneurship as an heroic

activity in which the social entrepreneur was motivated by the desire to change the world (Alvord et al., 2004; Sen, 2007), implement solutions to global problems (Yunus, Moingeon, & Lehmann-Ortega, 2010) and halt the hegemony of free market economics (Seelos & Mair, 2005).

More recent contributions have been anchored in a range of theoretical perspectives including institutional logics (Pache & Santos, 2013), institutional bridging (Tracey, Phillips, & Jarvis, 2011), paradox and ambidexterity (Landsberg, 2004; Smith, Besharov, Wessels, & Chertok, 2012; Smith, Gonin, & Besharov, 2013), hybridity (Battilana & Dorado, 2010), and critiques of capitalism and free market economics (Amin, 2009; Laville & Nyssens, 2001; Ménard, 2004; Santos, 2012). Further, critical scholars have explored how the meaning of social entrepreneurship has been socially constructed from the dialectical discourse between politics and practice (Teasdale, 2012; Lyon & Sepulveda, 2009).

### **Social Value Creation and Opportunity Identification**

The processes of social entrepreneurship are anchored in the practices of establishing a new venture to pursue commercial and social goals (Hockerts, 2006). Despite the centrality of opportunity identification to entrepreneurship (Vaghely & Julien, 2010) few studies have examined how opportunities to create social value are recognized (Corner & Ho, 2010; Hockerts, 2006) and discovered (Murphy & Coombes, 2008). Insights into how social value creating opportunities are recognised or constructed (Luke & Chu, 2013) can be gleaned from the many case studies of social enterprise development, for example, opportunities might be evident in community economic and social deprivation (Haugh, 2007; Thompson et al., 2000), institutional voids (Mair & Martí, 2009), or discovered from the social entrepreneur's vision and active searching for opportunities (Alvord et al., 2004; Thompson et al., 2000). In addition, entrepreneurial qualities of passion (Thorgren & Omoredede, 2015), commitment (Sharir & Learner, 2006) and creativity (Sen, 2007) have been noted to drive social entrepreneurship opportunity identification.

The extent to which social entrepreneurs recognise or discover opportunities in different ways to commercial entrepreneurs is explored in a number of studies

(Doherty, Foster, Mason, Meehan, Rotheroe, & Royce, 2009; Mair & Martí, 2006; Corner & Ho, 2010; Nicholls, 2006). Doherty et al., (2009) found that the opportunity seeking culture of fair trade certified organizations enabled them to identify opportunities that other third sector organisations were unable to pursue. In particular, the culture of nonprofit organizations was to rely on philanthropic funds to finance social mission, with a greater emphasis on philanthropic sources of income, were unable to pursue.

## **Social Innovation**

Social innovation is the development and discovery of a novel solution to a social problem that is more effective, efficient, sustainable, or socially just than current solutions and in which the value created accrues primarily to society rather than to private individuals (Phills, Deiglmeir, & Miller, 2008). The broad definition of social innovation embraces a range of novel services such as work integration (Pache & Santos, 2013), livelihood and income generation (Seelos & Mair, 2005; Yunus et al., 2010) and supporting the socially excluded (Blackburn & Ram, 2006; Svandberg et al., 2010); new organizational forms for social enterprise that blend knowledge, skills and resources from different economic sectors (Phills et al., 2008; Tracey et al., 2011); and new strategies for engaging and communicating with stakeholders (Chew & Lyon, 2012). However, social innovation is a social construct capable of multiple interpretations (Osborne, Chew, & McLaughlin, 2008) and the innovativeness of social entrepreneurship is frequently asserted (Drayton, 2005) but rarely challenged.

The *Stanford Social Innovation Review* has been instrumental in raising the profile of social innovation by disseminating information about new developments in social enterprise business models (Phills et al., 2008). Grass roots social innovation capitalizes on traditional and community knowledge to develop innovations for communities (Gupta, Sinha, Koradia, & Patel, 2003) and social alliances create opportunities for social innovation from pooling partners' knowledge and skills (Lyon, 2012). Public sector and philanthropic support for social innovation has been manifest in the flow of funds to assist the development of new products, services and delivery mechanisms for socially and environmentally beneficial goods and services (Osborne et al., 2008). An unintended consequence of the enhanced flow of funds to



support social innovation has been to sacrifice tried and tested social, community and environmental products and services in favour of novel solutions (Amin, 2009).

### **Processual Approaches to Opportunity Discovery**

Three principal theories have been employed to advance social entrepreneurship opportunity research. First, effectuation theory describes a process in which opportunities emerge hand in hand with environmental and resource constraints (Sarasvathy, 2001). Corner and Ho (2010) show how social entrepreneurship opportunities develop in this way but also allude to linear opportunity development processes. Second, bricolage, in which the resources to hand are employed in novel ways to create goods and services, has proved insightful when analysing social entrepreneurship (Di Domenico, Haugh, & Tracey, 2010; Fisher, 2012). Finally, structuration theory (Giddens, 1984) has shed light on how the interplay between context and social processes influences opportunities for opportunities to create social value take shape (Nicholls & Cho, 2006).

### **Social Entrepreneurship and Opportunity Exploitation**

Subsequent to opportunity identification, the next process in social entrepreneurship is to design the architecture for opportunity exploitation. Our review of social entrepreneurship research and opportunity exploitation is structured into four principal functions of social enterprise business models, marketing, finance and human resources management.

### **Social Enterprise Business Models**

An organization's business model comprises the structures and processes required to develop products and services as well as the mechanisms for generating income (Grassl, 2011; Yunus et al., 2010). The defining characteristic that social entrepreneurship involves both commercial and social value creation has challenged the design of business models incapable of managing the tensions between strategies that generate revenue and strategies to generate social value and societal change (Smith et al., 2013; Zahra, Gedajlovic, Neubaum, & Shulman, 2009). Paton (2003)

suggests that the pursuit of social goals can be in conflict with managerial rationality that prioritises financial objectives. The search for multiple income streams and the imperative to be financially sustainable might lead the mission of the social enterprise to drift away from social value creation to focus on commercial revenue generation (Doherty et al., 2009).

*Balancing Commercial and Social Goals.* For social enterprises the strategic challenge is to balance the management of multiple sources of funds with the achievement of social mission. The approach to resource mobilization is shaped by the organization's capabilities related to accessing income streams. To illustrate, the fair trade certified organizations Divine, Cafédirect and Liberation Nuts have been successful in developing commercial and own-label brands for their products. This contrasts with the experience of Oxfam when attempting to develop their own brand of fair trade certified chocolate and coffee products. By restricting their own brand product distribution to Oxfam outlets, Oxfam failed to take advantage of the commercial distribution opportunities in high street retail outlets. Despite investing in product development and market research, insufficient sales of the Oxfam branded products lead to the products' withdrawal from the market (Doherty, 2009).

*Stakeholder Engagement.* Social and commercial business models differ in terms of the increased diversity of stakeholder groups that impact on, and are impacted by, the activities of the social enterprise (Di Domenico et al., 2010). Courtney (2002) suggests that social enterprise strategy development is more resource intensive due to the involvement of different stakeholder groups in consultation and decision making processes. The collective approach to strategy formation raises new challenges of working with and governance of relationships with multiple stakeholders (Hudson, 2002).

*Scaling Social Impact.* The pursuit of commercial and social goals also impacts on the design of business models to achieve growth. Growth might be achieved by endogenous growth (Bloom & Smith, 2010) or diffusion of a successful business model through replication. In addition, growth might be achieved by either improving commercial performance or increasing social impact. Thus social enterprise growth necessitates a wider conceptualisation of organizational performance when compared

to commercial organizations (Lyon & Fernandez, 2012). The strategies of scaling and growth are further complicated by the difficulties in measuring commercial performance as well as social and environmental impact (Darby & Jenkins, 2006; Paton, 2003). To focus on profit as a single measure of success fails to capture the impact of social entrepreneurship on social value creation and broader societal change (Paton, 2003; Speckbacher, 2003).

Although scaling social impact through social franchising has been discussed (Bradach, 2003; Dees, Anderson, & Wei-Skillern, 2004) the empirical data finds that success of business model franchising in the private sector is difficult for social entrepreneurship to emulate. The challenges include identifying which components of the social business model components to licence (Dees et al., 2004), and recruiting franchisees willing to pay for the franchise, and who also have the motivation and capabilities to achieve both commercial and social goals (Tracey & Jarvis, 2007).

*Social Alliances.* An important strategy for social value creation is to work in partnership with other organizations from the same, or other, economic sectors (Austin et al., 2006; Di Domenico, Tracey, & Haugh, 2009). Social alliances might be created horizontally to enhance capacity to bid for service delivery contracts, share social networks, resources and assets, and as forerunner to mergers between social enterprises. Horizontal social alliances are built on relationships between more equal partners and are not hierarchical (Hardy, Phillips, & Lawrence, 2003). Collaboration is one of the cooperative values set out by the cooperatives movement (ICA, 1994) although there has been limited research on how these forms of social enterprise implement this ideal in practice when operating in a more competitive environment.

Alternatively, vertical social alliances might be constructed to reap the benefits of closer supply chain integration or market creation. For example, a study of four locations in the UK found that collaborative relationships between social enterprise and commercial organizations were strongest and most effective where the local economies were stronger and was less effective in places where there were fewer economic opportunities and less economic growth (Amin et al., 2002).

In common with commercial entrepreneurship, access to resources is key to successful opportunity exploitation and competitive advantage (Barney, 1991). In the UK and US an important income source for social entrepreneurship originates from the public sector either as grants and donations or contracts for the delivery of health, social care and welfare services. Thus building strong and productive relationships with decision makers with the power to award funds and contracts is strategically important. Relational contracting (Spear, 2008, p.44), in which the award of contracts is rooted in the strength and quality of social relationships between funders and recipients, have become an important social enterprise income generation strategy. Since the majority of social enterprises are small organizations (Lyon, Teasdale, & Baldock, 2010) the relationships with stakeholders are based on trust and remain informal (Munoz & Tindsley, 2008, p.53). Social entrepreneurs reported they feared that efforts to formalize relationships would future contracts. The unequal power relationship between contracting partners however undermines the capacity of social enterprises to negotiate beneficial contracts (Craig, Taylor, Wilkinson, & Bloor, 2002). For example, Munoz and Tinsley (2008) also found that many social enterprises had trading relationships with partners without a formal contract between them, and that the agreement to trade did not cover their full costs. The power differences between the two partners in the alliance meant that the social enterprise was powerless to resolve these issues.

### **Social Enterprise Marketing**

Generating commercial income means that understanding how markets function is integral to social enterprise opportunity exploitation. Research has noted how social entrepreneurship has employed relationship and ethical differentiation strategies to appeal to customers and consumers (Doherty, 2009). In addition, social marketing has been instrumental in helping individuals to abandon antisocial habits and addictions such as smoking, and practice more healthy behaviour (Andreason, 2006).

*Relationship Marketing.* The important role that relationships play in building trust and cooperation to facilitate economic action is well established in the literature. When relationship marketing is anchored in ethical principles, markets reward organizational virtuousness and trustworthiness via customer and consumer loyalty

(Murphy, Laczniak, & Wood, 2007). Social enterprise values of equity, openness and mutuality embody the true spirit of relationship marketing (Murphy et al., 2007) and create an important marketing advantage when competing in the market place. In addition, relationship marketing extends the importance of building trusting relationships to all stakeholders, not just trading partners (Harker & Eagan, 2006).

*Ethical Marketing.* Insight into ethics, markets (Wagner-Tsukamoto, 2007) and marketing is gained from the increasing volume of research that has explored the principles, procedures and processes of fair trade certification (Davies et al., 2010). Fair trade scholarship highlighted how many early fair trade certified organizations were unsuccessful in achieving an effective balance between satisfying consumer expectations concerning product quality, availability and pricing at the same time as achieving the social mission to help farmers and producers in developing countries (Strong, 1997; Nicholls & Opal, 2005). Many of the first fair trade products to be certified did not succeed in the market place and were withdrawn. Subsequent to the product withdrawals, rigorous fair trade certification principles and procedures were introduced and professional product development processes designed. This was followed by the development of a range of fair trade certified, good quality products with market appeal. Campaigns by activists to persuade major retailers to stock fair trade certified products leveraged new mainstream distribution outlets for fair trade products (Davies, 2009). For fair trade certified social enterprises therefore, marketing involves balancing not just commercial and social goals but also crafting a balance between communicating ethical principles and achieving and maintaining consumer expectations concerning product quality (Golding, 2009; Golding & Peattie, 2005). In this way customers do not only purchase the physical dimensions of products and services but also buy into the social mission of the seller or provider (Mann, 2008).

*Social Marketing.* Social marketing involves the application of “*marketing knowledge, concepts and techniques to enhance social as well as economic ends*” (Andreason, 2006, p.9). Thus social marketing explicitly borrows commercial marketing practices and applies them to achieving social goals. Social marketing is however distinctive in that the sponsoring organization is not the beneficiary of the investment in marketing. Instead the audience for marketing communications comprises the target market and broader society (Golding & Peattie, 2005). Take for

example a social marketing campaign to reduce tobacco smoking by the UK charity Ash. The marketing campaign would be targeted at tobacco smokers and might be funded by philanthropic and public sector donations to an anti-smoking charity. In a second example, the UK social enterprise Little Angels invests in social marketing techniques to increase the prevalence of breast feeding in mothers from disadvantaged backgrounds. The marketing campaign is complemented by workshops to provide advice and training to new mothers.

### **Social Enterprise Human Resource Management**

The social pursuit of social goals plays an important role in several aspects of social enterprise management of human resources. First, the commitment to creating social value and societal change are motivating factors for recruiting employees, volunteers and trustees (Borzaga & Solari, 2001; Royce, 2009). Ensuring that the balance between commercial and social goal achievement is maintained is thus important for ensuring that the supply of labour is sufficient to keep the social enterprise functioning. Second, the exploitation of opportunities to provide training services and employment skills to the long term unemployed means that social enterprise human resource strategies comprise both skills-based and beneficiary recruitment. Social enterprises that adopt Intermediate Labour Market (ILM) and Worker Integration Social Enterprises (WISE) business models need therefore to respond to the needs of both categories of employee as well as, in some cases, the needs of volunteers (Smith et al., 2013). Finally, the cultural differences between commercial and nonprofit organizations impacts on employee remuneration and compensation packages (Wilson & Post, 2013) which in turn shapes the attractiveness of employment opportunities.

*Employee and Volunteer Recruitment.* The rapid growth in the population of social enterprises preceded the design and implementation of training and educational programmes for social enterprise leaders, volunteers and trustees. The inevitable employee skills gap (Salamon, Sokolowski, & List, 2003) increased competition for the small pool of qualified and skilled staff. Volunteers comprise 43% of the global social economy workforce and are an important human resource for filling short term and temporary skills gaps (Salamon et al., 2003).

For example the social enterprise Liberation Nuts was originally established as a charity but the commercial exploitation of market opportunities to supply nuts and seeds to manufacturers and retailers meant that the charity legal form was inappropriate (Mason & Doherty, 2016). During the period of initial growth Liberation Nuts struggled to achieve the balance between social and commercial skills. Despite much consumer demand for the organization's products, the management team's lack of marketing skills and failure to build commercial relationships with distributors, impacted negatively on product availability. The sustainability of Liberation Nuts was later assured when the balance between commercial and social skills was achieved. In a second example, in a study of microfinance organizations in South America, the recruitment of employees and trustees with commercial and social skills was also instrumental to achieving sustainability (Battilana & Dorado, 2010).

*Employee and Volunteer Motivation.* Further, social enterprise leaders perform a critical role in motivating employees, volunteers and trustees (Young, 2006) to invest extra effort to help the organization achieve commercial and social success. The intrinsic rewards from working for a social enterprise are thus important for maintaining a committed and enthusiastic cohort of employees and unremunerated volunteers and trustees (Gennard & Judge, 2005). The recent trend for employees from the private sector to 'downshift' to more intrinsically rewarding work in the social economy has also increased the supply of skilled labour (Mason & Doherty, 2009). More cautiously, since volunteers are not contractually obliged to comply with organizational and managerial demands, they are at liberty to withdraw their labour for example, if they disapprove of the strategic direction pursued by the social enterprise (Royce, 2007).

*Governance.* Social enterprise dual mission means that board members are simultaneously exposed to institutional pressures to achieve financial sustainability, generate social value and build and maintain close relationships with a range of stakeholder groups (Mason & Doherty, 2016). Battilana and Lee (2014) propose that effective social enterprise governance plays a central role in ensuring accountability to all the organization's stakeholders and resisting pressures to drift towards either social or commercial objectives at the expense of the other. Drawing on paradox

theory Lüscher and Lewis (2008) proposed that social leaders and trustees who adopted paradoxical thinking at board level and faced up to the tensions were better able to adapt and integrate the competing social and commercial demands.

### **Social Enterprise Finance**

The sustainability of social enterprise business models is directly influenced by the establishment of a viable and effective financial architecture to maintain liquidity. Earned income strategies provide a flow of unrestricted funds which confers the maximum organizational autonomy over strategic and investment decisions. However, few social enterprises generate 100% of their income from trading and most rely on a mix of philanthropic, grants and income from trading. Social enterprise access to debt and loan finance has been noted to be restricted and, in response the institutionalization of the new field of social finance has recently begun to take root. For example, venture philanthropy (Scarlata & Alemany, 2010) social venture capital (Silby, 1997) community investment funds (Nicholls, 2010) and patient capital (Westall & Chalkley, 2007) are novel investment vehicles that provide funds for organizations to create social value and societal change. At the same new techniques to measure social performance have been developed to ensure that social enterprises are accountable to stakeholders (Emerson, 2003; Nicholls, 2010; Flockhart, 2005).

*Social Investment.* The social investment market comprises both the supply of and demand for funds. Social investors provide packages of finance, philanthropy and business support to organizations committed to social and environmental value creation (Doherty et al., 2014). The investment packages range from low cost loans for social purpose organisations to innovative forms of philanthropic venture capital (Scarlata & Alemany, 2010). The diversity of packages reflects different investor expectations of financial, social and environmental returns on investment (Nicholls, 2010). In this new field of activity support programmes have been instituted to help prepare social enterprises build capacity in preparation for receiving social finance (Mason & Kwok, 2010) and measure social value creation (Flockhart, 2005; Nicholls, 2009). Social networks are also important for resource acquisition (Coleman, 1988) and social enterprise business models leverage strong social entrepreneur networks to access funds to support social value creation. For example, relationships with



philanthropists, social activists, campaigners, customers and volunteers can all be leveraged for commercial opportunities and access to low cost capital (Peredo & Chrisman, 2006; Smith-Hunter, 2008; Mair & Martí, 2006).

*Share Capital.* The choice of legal structure impacts on permissible sources of funds. In the UK for example, capital from the issuance of shares can be raised by three social enterprise organizational forms: community interest companies limited by share; industrial and provident societies trading as cooperatives, and benefit corporations (BCorps). In the US only the BCorp permits the issuance of share capital for social value creation. Registered charities for example, the low profit limited liability company (L3C) are prohibited from issuing share capital however, preferential tax and fiscal arrangements reduce the financial liabilities of this organizational form.

The new company and cooperative legal forms for social enterprise that have been established in the UK, US and Europe are indicative of policy recognition that social enterprises are a category of organizations that is distinguishable from commercial and nonprofits (Katz & Page, 2013). The new legal forms confer legitimacy on the simultaneous pursuit of commercial and social goals. However, despite the new legal forms for social entrepreneurship, opportunity exploitation continues to be challenging and fraught with tension (Battilana & Lee, 2014).

## **Conclusion and recommendations: What we still need to Find Out**

This Chapter has reviewed the literature on social entrepreneurship opportunity identification and exploitation. It has drawn on wide range of conceptual and empirical studies. Although a substantial body of work exists, there are many fruitful opportunities for further research to expand theory and knowledge of social entrepreneurship. In this final section of the chapter we outline 10 research questions to keep social entrepreneurship research moving forward, making it theoretically interesting and of practical relevance.

1. Social entrepreneurship and opportunity identification.

The few studies that have explored social entrepreneurship opportunity recognition and construction have opened up an important field for future social entrepreneurship research (Lehner & Kansikas, 2012; Short, Ketchen, Shook, & Ireland, 2010; Short, Moss, & Lumpkin, 2010). The current focus on defining and describing social opportunities can be complemented by analysis of how social entrepreneurs discover or create opportunities for social value creation. The role of social entrepreneur emotions (Goss, 2005) such as passion (Thorgren & Omorede, 2015) have begun to shed light on motivations for social entrepreneurship and further studies might examine other positive as well as negative emotions on the motivation for opportunity recognition and construction.

## 2. Social enterprise hybrids

Scholars have begun to investigate how tensions between commercial and social goal achievement are managed (Pache & Santos, 2013). Studies have found that successful strategies for managing conflicting demands include separation and integration (Alter, 2006) and selective coupling (Pache & Santos, 2013). However our understanding of contextual influences on managing commercial and social goals is incomplete. Research that explored the mechanisms for achieving multiple goals when there is resource scarcity and competition would advance knowledge on the determinants and efficacy of strategies for goal alignment, and goal conflict resolution.

## 3. Social entrepreneurship identity and identification

Identity comprises the stable and enduring characteristics of an organization (Whetton, 2006). For social enterprise hybrids the pursuit of commercial and social goals means that crafting a stable identity comprises managing the tensions between two potentially conflicting goals and logics (Pache & Santos, 2013). Research that analysed how identity differences can be employed to achieve competitive advantage would be valuable for the range of organizations that strive to reconcile competing goals, values and practices.

## 4. Social entrepreneurship and resource acquisition.

Analysis of the resources for social entrepreneurship has been dominated by the challenges of acquiring and managing financial and human resources and few studies have considered how physical assets, such as business premises (Hart, 2001), and

emotional assets (Hopkins & Rippon, 2015) are leveraged to generate revenue and create social value. Yet, asset based income generation has the potential to generate a reliable flow of income as well as security for debt and loan finance. Research that identified the determinants of successful asset based social business models would have implications for both theory and practice.

#### 5. Business models for social entrepreneurship

The intractability of global economic and social problems has led to policy and practitioner interest in supporting social enterprise growth and social business model replication (Bloom & Smith, 2010). The review by Battilana and Lee (2014) of social enterprise hybrids found that social enterprises in the US are less successful than commercial organizations when seeking to acquire start-up capital, register as a legal form and enter new markets. These constraints in turn hinder their prospects of long term survival. Strategic management processes are noted to be underdeveloped in social enterprise (Paton, 2003) yet effective strategic management is fundamental to competitive advantage. Research to identify the determinants and components of successful social enterprise business models would advance both management theory and practice. Configurational analytical techniques such as Qualitative Comparative Analysis (QCA) (Ragin, 1987) would enable the effective combinations of practices to be identified and replicated by other organizations.

#### 6. Social enterprise failure.

As the volume of social entrepreneurship research accumulates, more attention to how social enterprises mature, decline and cease trading would assist both theory development and practice (Tracey et al., 2011). There is also potential to examine how social entrepreneurs learn from failure and draw on past experience of both success and failure in future opportunity identification and exploitation. How the detritus from failed social enterprises is reused to either restart or found new social enterprises would advance theories of effectuation and bricolage.

#### 7. Institutional influences on social entrepreneurship opportunity identification and exploitation.

The opportunities for social value creation and the business models implemented by social enterprise managers will reflect changing consumer norms and attitudes. As

culture shapes such preferences there is a need for international comparative research and research that explores national and international institutional influences on social entrepreneurship. Much research has focussed on health and employment sectors and there is a growing interest in environmental services and cultural industries. There is evidence that the role of the state in supporting social entrepreneurship may be decreasing in Europe and increasing in places such as East Asia (Defourny & Shin-Yang, 2011) and Africa (Thorgren & Omorede, 2015). Future research can also explore the changing nature of the role of the state and the evolution of social enterprise business models.

#### 8. Social enterprise marketing

Social entrepreneurship marketing research has to date relied on theories developed from the study of commercial organizations (Doherty et al., 2009). The principles of relationship, ethical and social marketing appear to align with the defining characteristics of social entrepreneurship. However, the absence of the profit maximisation motive and the centrality of stakeholder relationships have the potential to lead to new models of marketing oriented which are towards social and environmental value creation.

#### 9. Information technology and social entrepreneurship

Advances in information technology and social media have been embraced by some, but not all, social enterprises. Community based social enterprises have been successful in securing technological connectivity for rural communities, the disabled and the housebound. In addition, advances in technology have revolutionised health care, and payments systems in developing countries (van Rensburg, Veldsman, & Jenkins, 2008). Further, innovations in social media have improved communications. How might information technology be employed to empower communities and release entrepreneurial potential to further economic and social development?

#### 10. Social entrepreneurship and reinventing capitalism for the 21<sup>st</sup> century.

Despite the benefits that capitalism has undoubtedly brought to people in many countries, the impacts of global economic crises, intractable social problems and climate change persist. Social entrepreneurship has been talked about as a mechanism for changing capitalism for the 21<sup>st</sup> century (Amin et al., 2002; Mort et al., 2003; Sen,

2007). What role might social entrepreneurship play in changing the central tenets of free market economics to reflect the needs of a world in which poverty, disease and environmental damage persist?

Acknowledgement: The support of the Centre for the Understanding of Sustainable Prosperity funded by the UK Economic and Social Research Council and the ESRC Impact Accelerator grant from the University of York are gratefully acknowledged.

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